

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 CAB-02 CIAE-00 COME-00
DODE-00 DOTE-00 INR-10 NSAE-00 FAA-00 L-03 SS-15
NSC-05 /056 W
-----039878 012026Z /62

R 011856Z JUN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 9025
INFO AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY BERLIN
AMEMBASSY BRUSSELS
USMISSION USBERLIN

C O N F I D E N T I A L SECTION 01 OF 02 BONN 10038

BRUSSELS FOR FAA

E.O. 11652:GDS
TAGS: EAIR, WB, GW, FR, UK
SUBJECT: CIVAIR: APPLICANTS FOR BERLIN - SAARBRUECKEN
SERVICE.

REF: A. FRANKFURT 3072 (NOTAL) B. 77 BONN 21124

SUMMARY: THIS TELEGRAM IS A REPORT OF THE SITUATION
REGARDING APPLICANTS AND POTENTIAL APPLICANTS TO
OPERATE A SCHEDULED SERVICE BETWEEN BERLIN AND
SAARBRUECKEN. EMBASSY EVALUATION OF THE VARIOUS AIRLINES
WILL BE REPORTED SEPTEL. BERLIN AIR TAXI (BAT) MADE AN
OFFICIAL APPLICATION FOR THE SERVICE BEFORE THE ALLIED
CAA'S ON MAY 30. IT PROPOSES TWICE DAILY ROUND TRIPS
USING CONVAIR 580 AIRCRAFT. THE PRESENTATION WAS MARRED
BY EVASIVENESS AND RELUCTANCE TO PROVIDE REQUESTED
INFORMATION, ESPECIALLY ON FINANCIAL MATTERS. INTRA
AIRWAYS (UK) HAS MADE A PROPOSAL TO THE SAARLAND
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AUTHORITIES ASKING A SUBSIDY FOR A TWICE DAILY SERVICE
USING VISCOUNTS. INTRA APPARENTLY CONSIDERS IT
NECESSARY THAT THE FRG AND HMG AGREE TO A LONDON-SAAR-
BRUECKEN ROUTE BEFORE IT WILL UNDERTAKE THE BERLIN-
SAARBRUECKEN SERVICE. AIR ALSACE HAS INDICATED IT
MIGHT RENEW ITS APPLICATION, THIS TIME PROPOSING FOKKER
F-28'S. AEROAMERICA HAS ASKED THAT IT BE GIVEN THE

RIGHTS AND INTEND TO SERVE THE ROUTE WITH AN F-27.
END SUMMARY.

1. ON MAY 30, BERLIN AIR TAXI (BAT) PRESIDENT KIM LUNDGREN, VICE-PRESIDENT GEORGE WERTENBAKER (FORMER U.S. ADMINISTRATOR FOR AERONAUTICS IN BERLIN) AND COUNSEL WILLIAM KINSEY MADE ORAL PRESENTATION AND WRITTEN APPLICATION BEFORE ALLIED CIVIL AIR ATTACHES FOR PERMIT TO ESTABLISH A SCHEDULED SERVICE BETWEEN BERLIN AND SAARBRUECKEN. BAT PROPOSES TO USE TWO CONVAIR 580'S (TURBO-PROP RETROFITTED CONVAIR 440'S) TO CONDUCT A TWICE DAILY ROUND TRIP (ONE ROUND TRIP PER DAY SATURDAY AND SUNDAY). THE AIRCRAFT WOULD BE PURCHASED FROM EITHER ALLEGHANY OR FRONTIER AIRLINES BOTH OF WHOM PLAN TO PHASE OUT THEIR 580'S IN THE NEAR FUTURE.

2. BAT PROPOSAL ENVISAGES A BREAK-EVEN POINT OF 17.5 PASSENGERS AND ESTIMATES PASSENGER LOADS TO EXCEED THIS FIGURE SOMEWHAT. LUNDGREN AND WERTENBAKER HAVE DISCUSSED A SUBSIDY WITH THE SAARLAND GOVERNMENT AND EXPECT TO RECEIVE A SUBSTANTIAL ONE, BUT THEY PRE-DICATED THEIR PRESENTATION ON NO SUBSIDY AND SAY THEY WILL ESTABLISH THE ROUTE IF THEY RECEIVE CAA APPROVAL EVEN IF NO SUBSIDY IS FORTHCOMING.

3. LUNDGREN AND KINSEY WERE EVASIVE WHEN ASKED TO DIS-
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CUSS HOW THEY WOULD FINANCE THE PURCHASE OF AIRCRAFT AND WHAT ASSETS THEY HAD TO FALL BACK ON SHOULD THE BERLIN SAARBRUECKEN SERVICE TAKE LONGER TO BE PROFIT-ABLE THAN THEY ESTIMATED. PERSISTENT QUESTIONING BY THE CAA'S BROUGHT OUT THAT ONE-THIRD OF BAT STOCK IS OWNED BY LELCO INC. WHICH APPEARS TO BE SOME SORT OF A HOLDING COMPANY OF THE LUNDGREN FAMILY ASSETS OR A PART THERE OF. EIGHTY PERCENT OF THE STOCK OF LELCO IS OWNED BY LUNDGREN WHO ALSO OWNS DIRECTLY ONE-THIRD OF BAT. KINSEY SAID LELCO HAD LAND HOLDINGS WHICH WERE LISTED AT A LOW VALUE AND HAD RECENTLY LIQUIDATED SOME ASSETS WITH THE RESULT THAT THE CORPORATION'S BALANCE SHEET DID NOT LOOK TOO GOOD AT PRESENT, BUT THE NECESSARY ASSETS WERE THERE FOR BAT TO CALL ON IF NECESSARY. HE MAINTAINED THAT THE MAIN CAPITAL OF THE FIRM WAS THE MANAGEMENT TALENT REPRESENTED BY BAT'S OFFICERS AND IMPLIED THAT THIS SHOULD SATISFY BOTH THE BANKS AND THE CAA'S.

4. IN ADDITION TO CITING THEIR RECORD SO FAR IN BERLIN, THE BAT OFFICERS BASED THEIR CASE LARGELY ON THE PREMISE THAT AS A BERLIN BASED ORGANIZATION WITH NO

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-----039899 012027Z /62

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USMISSION USBERLIN

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OTHER SCHEDULED ROUTES, THEY WOULD DEVOTE THEIR ENTIRE EFFORT TO BERLIN AND THUS PRECLUDE PROBLEMS OF EQUIPMENT PRIORITY WHICH HAD LED TO POOR SERVICE ON BERLIN ROUTES IN THE PAST BY AIRLINES WHOSE PRINCIPAL OPERATIONS WERE ELSEWHERE.

5. AFTER BAT PRESENTATION, BRITISH CAA HANLEY REPORTED ON INTRA AIRWAYS INTEREST IN THE BERLIN-SAARBRUECKEN SERVICE. HE SAID THAT INTRA HAD MADE A PROPOSAL TO THE SAARLAND OFFICIALS WHICH CALLED FOR THE LATTER TO PICK UP INTRA'S FIRST YEAR LOSSES ON A FOUR YEAR REPAYMENT TO A MAXIMUM OF ABOUT DM 1 MILLION. INTRA HAS TOLD THE SAARLAND OFFICIALS THAT IT CONSIDERS IT ESSENTIAL TO HAVE A GATWICK-SAARBRUECKEN ROUTE TO SUPPLEMENT ITS PROJECTED TWICE A DAY ROUND-TRIPS BETWEEN BERLIN AND SAARBRUECKEN. SINCE LONDON-SAARBRUECKEN IS NOT A DESIGNATED ROUTE UNDER THE CURRENT UK-FRG BI-LATERAL, IT WOULD BE
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NECESSARY FOR HMG TO NEGOTIATE THESE RIGHTS WITH THE FRG. HANLEY HAD NO OPINION AS TO WHETHER HMG WOULD BE WILLING TO DO THIS OR WHETHER THE FRG WOULD BE RECEPTIVE. HE HAD DISCUSSED THE MATTER WITH A FEDERAL MINISTRY OF TRANSPORTATION (FMT) OFFICIAL AND WAS TOLD, IN EFFECT, THAT THE FMT COULD AKE NO DECISION UNTIL THEY HAD A PROPOSAL FROM THE UK. HANLEY HAS ASKED THE UK DEPARTMENT OF TRADE (DOT) TO FIND OUT FROM INTRA AIRWAYS IF IN FACT THEY WILL SEEK THE SAARBRUECKEN BERLIN SERVICE ONLY IF THEY GET RIGHTS LONDON-SAARBRUECKEN AND HAS REMINDED THE DOT THAT ITS DECISION WHETHER OR NOT TO SEEK THE LATTER ROUTE FOR INTRA WOULD HAVE TO BE MADE WITHIN A REASONABLE TIME IF INTRA WERE NOT TO LOSE ITS CHANCE BY DEFAULT.

6. FRENCH CAA GAUSSOT REPORTED THAT AIR ALSACE, WHICH HAS HAD CAA PERMISSION TO CONDUCT THE SERVICE BUT FAILED TO EXERCISE IT BECAUSE OF DIFFICULTIES WITH PROCUREMENT OF THE VFW 614 AIRCRAFT THEY PLANNED TO USE, NOW HAS INDICATED THAT IT MIGHT ONCE AGAIN MAKE A TRY FOR THE ROUTE. THIS TIME AIR ALSACE PROBABLY WOULD USE F-28'S. GAUSSOT SAID HE TOLD AIR ALSACE THAT THEY HAD LOST THEIR PLACE IN LINE AND WOULD NOT BE CONSIDERED AHEAD OF OTHER APPLICANTS. HE IMPLIED, NEVERTHELESS, THAT HE EXPECTED TO SUPPORT THEIR APPLICATION.

7. FINALLY AEROAMERICA HAS REITERATED THAT IT WOULD LIKE TO CONDUCT THE BERLIN-SAARBRUECKEN SERVICE, HAS LOCATED A USED F-27 AND WOULD LIKE A DECISION SOON SO THAT IT WILL NOT LOSE THE CHANCE TO BUY THIS AIRCRAFT.
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8. EMBASSY EVALUATIONS OF THE VARIOUS PROPOSALS AND COMMENTS ON THE SITUATION FOLLOW SEPTTEL.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AIR SCHEDULES, BERLIN AIR ACCESS
Control Number: n/a
Copy: SINGLE
Draft Date: 01 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BONN10038
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780230-0018
Format: TEL
From: BONN
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197806109/aaaadpmx.tel
Line Count: 217
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: a6abc97d-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 FRANKFURT 3072, 77 BONN 21124
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 03 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2167540
Secure: OPEN
Status: NATIVE
Subject: CIVAIR: APPLICANTS FOR BERLIN - SAARBRUECKEN SERVICE.
TAGS: EAIR, WB, GE, FR, UK
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/a6abc97d-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014